

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MR. BUD RIFE AND)
THE KENTUCKY MUNICIPAL GAS)
UTILITY INVESTMENT TRUST FOR)
THE APPROVAL OF THE ACQUISITION)
OF THE STOCK OF JOHNSON)
COUNTY GAS COMPANY, INC. OF) CASE NO. 98-523
PAINTSVILLE, JOHNSON COUNTY,)
KENTUCKY, BY MR. RIFE, AND THE)
ISSUANCE OF TWO PROMISSORY)
NOTES EVIDENCING CERTAIN)
INDEBTEDNESS OF THE JCGC)

O R D E R

IT IS ORDERED that Mr. Bud Rife and Johnson County Gas Company, Inc. of Paintsville ("JCGC") shall file the original and 10 copies of the following information with the Commission. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a response requires multiple pages, each page should be indexed appropriately, for example, Item 1(a), page 2 of 4. With each response, include the name of the witness who will be responsible for responding to questions related thereto. Careful attention should be given to copied material to ensure that it is legible. The response to this request is due January 5, 1999.

1. Refer to page 6, paragraph 15, of the Application. Explain what efforts have been made by the Kentucky Municipal Gas Utility Investment Trust ("Trust") and/or Mr. Bud Rife to obtain the records detailing the original cost of the assets of JCGC.

2. Will JCGC be able to make the debt service payments required by the two notes with the level of revenues produced by the current rates?

3. Are the employees currently working for JCGC employed solely for work at JCGC or do these employees work for other entities owned by Mr. Rife as well?

4. If the employees of JCGC work for other entities owned by Mr. Rife, explain the procedures that will be used to allocate the appropriate amount of time and expense of these employees to JCGC. Include in this response the names of all employees currently on the payroll of JCGC, the number of hours they currently work for JCGC, the other entities for which they work, and the number of hours they work for the other entities. Also include an explanation of the amount of time Mr. Rife will spend on a weekly or annual basis in operating JCGC and the amount of time he spends working for the other commonly owned companies.

5. In Administrative Case No. 369¹ the Commission is exploring guidelines for Cost Allocation and Code of Conduct that will apply to utilities that operate with common ownership and utilities that are a part of a holding company. Under the guidelines currently proposed, the Commission would have access to the books and records of all of the affiliated companies that share costs or do business with the utility. Would JCGC be willing, as a part of this case to assure the Commission that it would have access to the books and records of the companies owned by Mr. Rife if they share any costs or conduct business together in any way, including sharing employees?

6. Refer to Exhibit D-1 to the application in this case. The balance sheet of B&S Oil and Gas Company reflects that the total Liabilities at December 31, 1997 were \$206,274. Total Assets of the Company are \$11,207 including \$1,870 in cash and net long-term assets of \$9,337. Explain how this financial statement can be used to show

¹ Administrative Case No. 369, An Investigation of the Need for Affiliate Transaction Rules and Cost Allocation Requirements for All Jurisdictional Utilities.

that Mr. Rife has the financial ability to acquire and operate JCGC. Include an explanation of who the Note Payable is with and how the company accumulated a negative balance of \$195,067 in proprietary capital.

7. With reference to B&S Oil and Gas Company, how many employees work for this company? Explain whether each employee is full-time or part-time and how many hours per week or annually each employee works for the company. Give a description of what is included in the "Auto & Truck Expense" and the "Rent" expense and explain why there was no cost in these accounts from 1992 through 1996.

8. Refer to Exhibit D-2 to the application in this case. The balance sheet of B&H Gas Company, Inc. reflects that the total Liabilities at December 31, 1997 were \$817,244. Total Long Term Assets of the Company are \$147,286 including \$41,322 in current assets and net long-term assets of \$105,939. Explain how this financial statement can be used to show that Mr. Rife has the financial ability to acquire and operate JCGC. Include an explanation of who the Accounts Payable are with and how the company accumulated a negative balance of \$669,958 in proprietary capital.

9. With reference to B&H Gas Company, Inc., how many employees work for this company? Explain whether each employee is full-time or part-time and how many hours per week or annually each employee works for the company. Explain why "Salaries and Wages" increased from \$14,080 in 1993 to \$42,840 in 1994.

10. Explain how B&H Gas Company can continue to operate at a substantial loss as it has for 6 of the last 9 years.

11. Are the assets owned by Bud Rife Construction Co., Inc. used in the operation of JCGC? If yes, explain how the amount to be charged to JCGC is determined.

12. Refer to Exhibit G, page 2, item 3.(b)(ii). Provide a copy of the Management Agreement under which Mr. Rife has operated JCGC since February 12, 1997. Identify all books, records, and tax returns that are in the possession of Mr. Rife relating to JCGC.

13. Refer to Exhibit G, Schedule 1, Detailed Income Statement and Balance Sheet of Johnson County Gas Company, Inc. The cover letter to the compilation report indicates that the report is prepared on the income tax basis. Provide a reconciliation of the financial statements of JCGC included in Exhibit G of this case and the financial statements included in the Annual Report to the Commission for the year ended December 31, 1997.

14. Refer to Exhibit G, Schedule 1, Detailed Income Statement and Balance Sheet of Johnson County Gas Company, Inc. Provide a general explanation of the overall changes in operating costs that have resulted from the change in management in February 1997. Include in the response an explanation of the following cost changes:

- a. Decrease in Salaries & Wages.
- b. Increase in Repairs and Maintenance.
- c. Decrease in Bad Debts.
- d. Increase in Rents.
- e. Decrease in Employee Benefit Programs.
- f. Increase in Service Supplies and Expense.

- g. Increase in Contract Labor.
- h. Increase in Computer Billing Expense.
- i. Decrease in Easement Expense.
- j. Decrease in Accounts Supplies & Expenses.
- k. Increase in Telephone Expense.
- l. Decrease in Transportation Expense.
- m. Explain the depreciation method used to determine the 1996 and 1997 depreciation expense.

15. Refer to the "Conditions of Stock Purchase Agreement" contained in Exhibit I.

a. Describe the plans of JCGC to meet the requirement of Section 4 to put 5 percent of the annual gross revenue in an escrow account for emergency repair of equipment until \$50,000 is accrued. Can this be accomplished at the current level of rates approved for JCGC?

b. Describe the plans of JCGC to provide FERC approved training of one full-time supervisory employee as required in Section 3 and the estimated annual cost of the training.

c. Describe the plans of JCGC to have annual management audits conducted by a consultant acceptable to FERC, and the Secured Party pursuant to Section 7, and the estimated annual cost of the audits. Also explain why the consultant selected to do the audit should be acceptable to FERC rather than the Kentucky Public Service Commission. Explain why the cost of these annual audits should be borne by the ratepayers of JCGC rather than the stockholders and/or the Secured Party.

d. Describe the "Gas System Restoration Project Account (hereinafter referred to as the "GSRP Account Review Board")" referred to in Section 1.1b. including an explanation of the source of this board, who appoints the members and the current membership of the board.

e. Explain the provisions of Section 8.8d. whereby the "Account Review Board shall make application to the FERC for authority to transfer the assets of the utility to another entity" Include an explanation of why the FERC has jurisdiction over this transaction.

16. Provide the journal entries that will be made on the books of JCGC, if any, affecting the transfer of ownership and sale of the stock to Mr. Rife.

17. Explain the entries that will be required to write down the debt and explain the federal and state income tax implications, if any, of the debt reduction.

18. What is JCGC's current source of gas supply? Will this continue to be the gas supply source following the transfer?

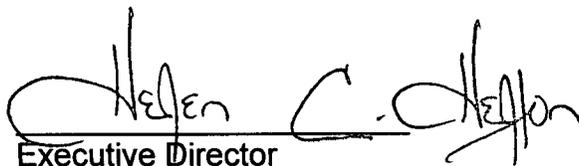
19. Provide copies of all current and proposed gas supply contracts.

20. Is JCGC current on all its gas supply expenses? Is there any outstanding indebtedness to any natural gas supplier that would jeopardize JCGC's future gas supply?

Done at Frankfort, Kentucky, this 15th day of December, 1998.

ATTEST:

PUBLIC SERVICE COMMISSION


Executive Director


For the Commission